

Message Text

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ACTION SS-30

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C O N F I D E N T I A L GEORGETOWN 1387

EXDIS

DEPARTMENT PASS OPIC

E.O. 11652: GDS

TAGS: EMIN, PFOR, GY, EFIN

SUBJECT: REYNOLDS-GOG BAUXITE TALKS END WITHOUT AGREEMENT

REF: GEORGETOWN 1386 AND PREVIOUS

SUMMARY: REYNOLDS-GOG TALKS ON EXTRAORDINARY BAUXITE LEVY ENDEDEVENING AUGUST 8 WITH PARTIES STILL FAR APART ON POSITIONS. GOG NOW EXPECTED INTRODUCE LEGISLATION NEXT WEEK IMPOSING JAMAICA-TYPE TAX FORMULA POSSIBLY AT 8 1/2 PERCENT LEVEL. REYNOLDS SIDE ANTICIPATES RAPID PRESENTATION OF TAX BILL, COURT SUIT, AND PROBABLY EARLY GOG APPOINTMENTS OF CONTROLLER TO RUN MINES. END SUMMARY.

1. TALKS BETWEEN REYNOLDS DELEGATION AND GOG SIDE LED BY MINISTER ENERGY AND NATURAL RESOURCES HUBERT JACK ENDED EVENING AUGUST 8 AFTER JACK HAD CONFERRED WITH PM. JACK INDICATED LEGISLATION TO IMPOSE BAUXITE LEVY, WHICH APPARENTLY ALREADY IN DRAFT FORM, WILL BE REFINED TO INCORPORATE SOME COMPANY SUGGESTIONS AND WILL BE DISCUSSED AT CABINET AUGUST 13. JACK ANTICIPATES PRESENTATION OF LEGISLATION IN PARLIAMENT AUGUST 14 OR 15. JACK INDICATED HE WOULD ADVISE REYNOLDS AGUSUT 14 OF DETAILS OF LEGISLATION. AFTER LEGISLATION INTRODUCED, JACK SAID COMPANY AND REYNOLDS COULD DECIDE
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WHETHER TO CONTINUE NEGOTIATIONS, AND CURIOUSLY CLAIMED

THAT PRESENT TERMINATION OF TALKS SHOULD NOT BE INTERPRETED AS REJECTION OF COMPANY POSITION. IN REFERRING TO LEGISLATION, JACK SAID IT WOULD PROVIDE FOR "SUBSTANTIALLY MORE" THAN US \$3 MILLION OFFERED BY COMPANY (GEORGETOWN 1385).

2. JACK QUIZZED REYNOLDS TEAM EXTENSIVELY ON CALCINED PRODUCTION AND MARKET DATA WITHOUT INDICATING PURPOSE OF QUESTIONS. MADE APPARENTLY JOCLAR COMMENT THAT TOGETHER REYNOLDS AND GUYBAU COULD INFLUENCE CALCINED WORLD MARKET PRICE.

3. DESPITE LACK OF AGREEMENT, REYNOLDS SIDE INDICATED TALKS CONCLUDED IN FRIENDLY MANNER. JOINT STATEMENT APPARENTLY SAID THAT "DISCUSSIONS BETWEEN THE GOVERNMENT OF GUYANA AND THE REYNOLDS METALS COMPANY WHICH HAVE BEEN TAKING PLACE FOR THE PAST THREE DAYS ON THE DETAILS OF A NEW FORMULA FOR THE COLLECTION OF REVENUE FROM BAUXITE PRODUCTION OF THE COMPANY IN GUYANA HAVE CONCLUDED WITHOUT AGREEMENT." HOWEVER, RADIO NEWS REPORT EVENING AUGUST 8 GAVE SOMEWHAT LESS CONCILIATORY PHRASEOLOGY, SAYING THAT TALKS WITH REYNOLDS HAD BROKEN DOWN AND THAM PM WOULD MAKE STATEMENT TO PARLIAMENT ON WEDNESDAY, WHILE INDEPENDENT MORNING PAPER AUGUST 9 HEADED ARTICLE "GOVERNMENT-REYNOLDS TALKS COLLAPSE".

4. COMPANY SPOKESMAN SEES FOLLOWING SCENARIO:

A. NEW BAUXITE LEVY LEGISLATION PASSES FINAL READING AROUND AUGUST 22, TAX BILL PRESENTED ALMOST IMMEDIATELY THEREAFTER, WITH RETROACTIVE PORTION PAYABLE (ROUGHLY US \$9 MILLION) IN TEN TO THIRTY DAYS.

B. COMPANY PRESENTS LEGAL CHALLENGE TO ACT AS UNCONSTITUTIONAL AND VIOLATING CONTRACT.

C. IN LATE SEPTEMBER OR BEGINNING OF OCTOBER GOVERNMENT SUES FOR TAX.

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D. COMPANY LAWYER TRIES TO COMBINE TWO SUITS TO AVOID REQUIREMENT OF DEPOSIT OF TAX ASSESSED.

E. PERHAPS IN OCTOBER, GOG APPOINTS CONTROLLER TO RUN MINES UNDER MINERALS ACT.

F. COMPANY THEN FACED WITH DECISION OF WHETHER TO PURCHASE OUTPUT AND AT WHAT PRICE.

5. OBVIOUSLY, THOUGH REYNOLDS REPRESENTATIVE DID NOT SO SPECIFY, IMPLICATION WAS THAT COMPANY WOULD CLEARLY NOT PAY TAX OF ANTICIPATED MAGNITUDE AND THAT CLAIM TO OPIC WOULD FOLLOW SWIFTLY.

6. REYNOLDS REPRESENTATIVES SHOWED EXTREME SENSITIVITY TO POSSIBILITY OF LEAKS TO PRESS OF GOG AND REYNOLDS POSITIONS PRIOR TO GOG PUBLIC ANNOUNCEMENT AND APPARENT CONCERN AT TELEPHONE CALLS THIS WEEK BY DEPARTMENT OFFICIAL (COURTNEY) TO RICHMOND HEAD-QUARTERS IN WHICH DETAILS OF CO. AND GOG POSITIONS DISCUSSED.

7. MEANTIME, AT LUNCH AUGUST 8 AT HIS HOME, FONMIN RAMPHAL TOLD ME HE BELIEVED PM BURNHAM HAD BEEN PERSUADED BY RAMPHAL'S CONTENTION THAT REYNOLDS ISSUE SHOULD BE CONSIDERED IN TOTAL CONTEXT OF USG-GOG RELATIONS AND CONSEQUENTLY THAT DIRECT TALKS WITH REYNOLDS SHOULD BE SUPPLEMENTED BY TALKS AT GOVERNMENT LEVEL. RAMPHAL ADDED HE ASSUMED LATTER TALKS WOULD DEAL WITH ALL ASPECTS OF REYNOLDS CASE, I.E., NATIONALIZATION AS WELL AS REVENUES. I AM STILL WAITING FOR WORD FROM PM'S OFFICE IN RESPONSE TO MY REQUEST OF AUGUST 6 FOR MEETING. AT RAMPHAL'S SUGGESTION I CALLED PM'S SECRETARY AGAIN MORNING AUG. 8 TO MAKE SURE SHE UNDERSTOOD REQUEST WAS NOT PURELY FOR COURTESY CALL. KREBS

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